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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY FOR
THE ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A REASONABLE
RATE OF RETURN ON THE FAIR VALUE OF
ITS OPERATIONS THROUGHOUT THE STATE
OF ARIZONA.

DOCKET NO. E-01933A-07-0402

IN THE MATTER OF THE FILING BY TUCSON
ELECTRIC POWER COMPANY TO AMEND
DECISION NO. 62103.

DOCKET NO. E-01933A-05-0650

RATE CASE
PROCEDURAL ORDER

BY THE COMMISSION:

In Decision No. 69568 (May 21, 2007), the Arizona Corporation Commission ("Commission") ordered Tucson Electric Power Company ("TEP" or "Company") to file a rate case by July 2, 2007. In addition, the Commission consolidated the docket in which the Commission reopened Decision No. 62103 (Docket No. E-01933A-05-0650) with the rate case (Docket No. E-01933A-07-0402).

On July 2, 2007, TEP filed its rate application.

On August 31, 2007, Commission Utilities Division Staff ("Staff") notified the Company that its rate filing met the sufficiency requirements as outlined in Arizona Administrative Code R14-2-103.B.

On October 1, 2007, the Commission convened a Procedural Conference to establish a schedule for the filing of testimony and for the hearing in this matter. Staff and TEP proposed a procedural schedule that would have Staff and Intervenor testimony filed on February 22, 2008, and after rebuttal, srrebuttal and rejoinder testimony, would have a hearing commencing on May 15, 2008, with the goal of having a Recommended Opinion and Order issued in October 2008.

1 The Residential Utility Consumer Office ("RUCO") suggested extending the proposed
2 hearing schedule by three weeks on the grounds that the rate filing, which involves multiple
3 proposals for the determination of generation rates, and is more complicated than a typical Class A
4 Utility rate case, requires more time for preparing testimony. Several other intervenors stated they
5 would appreciate additional time for filing testimony and still others had particular dates within the
6 May/June 2008 timeframe when individual attorneys would not be available. Staff and the Company
7 asserted that the proposed schedule was a compromise that attempts to balance the need for a
8 thorough analysis with leaving sufficient time for the preparation of an order and Commission
9 deliberations.

10 It appears that in a best case scenario, the hearing in this matter will take four weeks, and
11 could most likely require more time than that. A hearing that would not commence until June 2008,
12 does not allow any room for contingencies and potential unanticipated delays. Indeed, the proposed
13 schedule from Staff and TEP does not contain much, if any, room for an extended hearing. However,
14 given the complexity of the filing and time needed for analysis, we do not believe it in the public
15 interest to shorten the proposed time for filing direct testimony any more than proposed by Staff and
16 TEP. The proposed schedule as advanced by Staff and TEP appears to be the most reasonable and
17 balanced under the circumstances. Even this schedule does not allow time for slippage and the
18 parties are thus put on notice that if there are problems in the discovery phase of the proceeding that
19 could lead to delays in filing testimony, those disputes should be brought to the Hearing Division in a
20 timely manner.

21 Pursuant to A.A.C. R14-3-101, the Commission now issues this Procedural Order to govern
22 the preparation and conduct of this proceeding.

23 IT IS THEREFORE ORDERED that the **hearing** in the above-captioned matter shall
24 commence on **May 12, 2008, at 10:00 a.m.**, or as soon thereafter as is practical, at the Commission's
25 offices, **Room 222, 400 West Congress, Tucson, Arizona 85701.**

26 IT IS FURTHER ORDERED that a **pre-hearing conference** shall be held on **May 8, 2008,**
27 at 10:00 a.m. at the Commission's Tucson offices, Room 222, for the purpose of scheduling
28

1 witnesses and the conduct of the hearing.¹

2 IT IS FURTHER ORDERED that the **direct testimony** and/or associated exhibits (excluding
3 rate design and cost of service) to be presented at hearing on behalf of Staff and Intervenor shall be
4 reduced to writing and filed on or before **February 22, 2008**.

5 IT IS FURTHER ORDERED that **direct testimony** and/or associated exhibits **for rate**
6 **design and cost of service** to be presented at hearing on behalf of Staff and Intervenor shall be
7 reduced to writing and filed on or before noon on **March 7, 2008**.

8 IT IS FURTHER ORDERED that any **rebuttal testimony** and associated exhibits to be
9 presented at hearing by the Company shall be reduced to writing and filed on or before **March 25,**
10 **2008**.

11 IT IS FURTHER ORDERED that any **surrebuttal testimony** and associated exhibits to be
12 presented by the Staff and Intervenor shall be reduced to writing and filed on or before **April 21,**
13 **2008**.

14 IT IS FURTHER ORDERED that any **rejoinder testimony** and associated exhibits to be
15 presented at hearing by the Company shall be reduced to writing and filed on or before **May 5, 2008**.

16 IT IS FURTHER ORDERED that **all filings shall be made by 4:00 p.m. on the date the**
17 **filing is due, unless otherwise indicated**.

18 IT IS FURTHER ORDERED that any objections to any testimony or exhibits which have
19 been prefiled as of May 5, 2008, shall be made before or at the May 8, 2008 pre-hearing conference.

20 IT IS FURTHER ORDERED that all testimony filed shall include a table of contents which
21 lists the issues discussed.

22 IT IS FURTHER ORDERED that any substantive corrections, revisions, or supplements to
23 pre-filed testimony shall be reduced to writing and filed no later than five days before the witness is
24 scheduled to testify.

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28 ¹ Parties may request to appear telephonically at the pre-hearing conference. A telephone number will be provided closer to the date of the pre-hearing conference.

1 IT IS FURTHER ORDERED that the parties shall prepare a brief, written summary of the
2 pre-filed testimony of each of their witnesses and shall file each summary at least two working days
3 before the witness is scheduled to testify.

4 IT IS FURTHER ORDERED that copies of summaries should be served upon the Presiding
5 Officer, the Commissioners, and the Commissioners' aides as well as the parties of record.

6 IT IS FURTHER ORDERED that **intervention** shall be in accordance with A.A.C. R14-3-
7 105, except that all motions to intervene must be filed on or before **February 15, 2008**.

8 IT IS FURTHER ORDERED that discovery shall be as permitted by law and the rules and
9 regulations of the Commission, except that: until March 31, 2008, any objection to discovery requests
10 shall be made within 7 days² of receipt and responses to discovery requests shall be made within 10
11 days of receipt; thereafter, objections to discovery requests shall be made within 5 days and responses
12 shall be made in 7 days¹; the response time may be extended by mutual agreement of the parties
13 involved if the request requires an extensive compilation effort.

14 IT IS FURTHER ORDERED that in the alternative to filing a written motion to compel
15 discovery, any party seeking discovery may telephonically contact the Commission's Hearing
16 Division to request a date for a procedural hearing to resolve the discovery dispute; that upon such a
17 request, a procedural hearing will be convened as soon as practicable; and that the party making such
18 a request shall forthwith contact all other parties to advise them of the hearing date and shall at the
19 hearing provide a statement confirming that the other parties were contacted.³

20 IT IS FURTHER ORDERED that any motions which are filed in this matter and which are
21 not ruled upon by the Commission within 15 days of the filing date of the motion shall be deemed
22 denied.

23 IT IS FURTHER ORDERED that any responses to motions shall be filed within five days of
24 the filing date of the motion.

25 IT IS FURTHER ORDERED that any replies shall be filed within five days of the filing date
26 of the response.

27 ² "Days" means calendar days.

28 ³ The parties are encouraged to attempt to settle discovery disputes through informal, good-faith negotiations before seeking Commission resolution of the controversy.

IT IS FURTHER ORDERED that TEP shall provide public notice of the hearing in this matter, in the following type size, form and style with the heading in no less than 24 point type and the body in no less than 10 point regular type:

**PUBLIC NOTICE OF HEARING ON THE
RATE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY
DOCKET NO. E-01933A-07-0402 ET AL**

Summary

On July 2, 2007, Tucson Electric Power Company ("TEP" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for a rate increase to become effective January 1, 2009. TEP's filing includes three alternative methods for determining TEP's rates. Under the "Market Methodology" alternative, the unbundled generation service rate would be set by a Market Generation Credit and all other rates would be set under cost-of-service principles. Under this approach the rates paid for generation would fluctuate based on an index for the cost of power in the wholesale market. TEP estimates that the Market Methodology would produce a rate increase of approximately 21.9 percent over TEP's current retail rates based on current projections for wholesale market power prices. The "Cost-of Service Methodology" alternative would have TEP's retail rates based on cost-of service principles for distribution, transmission and generation services. This proposed methodology includes regulatory assets for the purported costs associated with the transition of generation service from a regulated monopoly to a competitive scheme; would implement a purchased power and fuel adjustment clause ("PPFAC") to recover TEP's power supply costs, and would restore the exclusivity of the Company's Certificate of Convenience and Necessity. TEP estimates the Cost-of-Service Methodology will produce a rate increase of approximately 23 percent over TEP's current retail rates based on current expectations for future power supply costs. The implementation of a PPFAC would cause the generation portion of a customer's bill to fluctuate based on power and fuel supply costs. The third proposed alternative is the "Hybrid Methodology" under which TEP's retail rates would be based on cost-of-service principles for distribution, transmission and generation, but some of TEP's generation assets would be excluded from rate base and designated as wholesale assets. The Hybrid Methodology incorporates a regulatory asset and includes a PPFAC. TEP expects the Hybrid Methodology to produce a rate increase of approximately 14.9 percent over current retail rates based on current expectations for future power supply costs.

The actual increase for each customer would vary, based on the type and quantity of service provided. Customers may contact TEP to inquire about the effect of the Company's proposal on their individual bill.

The Commission's Utilities Division Staff is in the process of auditing and analyzing TEP's records and has not yet made a recommendation regarding the proposed methodologies or the rate increase. The Residential Utility Consumer

Office, among others, is also a party to this proceeding. The Commission will determine the appropriate rate adjustment to be granted based on the evidence of record in the proceeding. The Commission is not bound by the proposals made by the Company, Staff, or any intervenors and therefore, the final rates approved may be higher or lower than the rates proposed by the Company.

How You Can View or Obtain a Copy of the Rate Proposal

Copies of the application and proposed rates are available upon request by contacting TEP at [COMPANY SHOULD INSERT NAME, ADDRESS, TELEPHONE NUMBER, AND E-MAIL ADDRESS FOR CUSTOMER CONTACTS CONCERNING THE APPLICATION]. Copies of the application are also available at the Commission's offices at 1200 West Washington, Phoenix Arizona, or 400 West Congress, Suite 218, Tucson, Arizona for public inspection during regular business hours and on the internet via the Commission website (www.azcc.gov) using the e-docket function.

Arizona Corporation Commission Public Hearing Information

The Commission will hold a hearing on this matter beginning May 12, 2008 at 10:00 a.m., or as soon thereafter as is practical, at the Commission's offices, 400 West Congress, Room 222, Tucson, Arizona. Public comments will be taken on the first day of the hearing. Written public comments may be submitted via email, or by mailing a letter referencing Docket Number E-1933AA-07-0402 to: Arizona Corporation Commission, Consumer Services Section, 1200 West Washington, Phoenix, AZ 85007 (visit <http://www.azcc.gov/divisions/util/forms/publiccomment.pdf> for a form and instructions). If you require assistance, you may contact the Consumer Services Section of the Commission at 1-800-222-7000.

About Intervener Status

The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene. Any person or entity entitled by law to intervene and having a direct and substantial interest in the matter will be permitted to intervene. If you desire to intervene, you must file a written motion to intervene with the Commission no later than **February 15, 2008**. You must send a copy of the motion to intervene to the Company or its counsel and to all parties of record. Your motion to intervene must contain the following:

1. Your name, address, and telephone number and the name, address and telephone number of any party upon whom service of documents is to be made if not yourself.
2. A short statement of your interest in the proceeding (e.g., a customer of the Company, a shareholder of the Company, etc.).
3. A statement certifying that you have mailed a copy of the motion to intervene to the Company or its counsel and to all parties of record in the case.

The granting of intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment on the application or from filing written comments in the record of the case. You will not receive any further notice of this proceeding unless you request it.

ADA/Equal Access Information

1 The Commission does not discriminate on the basis of disability in admission to its
2 public meetings. Persons with a disability may request a reasonable
3 accommodation such as a sign language interpreter, as well as request this
4 document in an alternative format, by contacting the ADA Coordinator, Linda
5 Hogan, at LHogan@azcc.gov, voice phone number 602/542-3931. Requests should
6 be made as early as possible to allow time to arrange the accommodation.

7 IT IS FURTHER ORDERED that TEP shall mail to each of its customers a copy of the above
8 notice by **November 30, 2007**, and shall cause the above notice to be published at least once in a
9 newspaper of general circulation in its service territory, with publication to be completed no later
10 than **November 30, 2007**.

11 IT IS FURTHER ORDERED that TEP shall file certification of mailing/publication as soon
12 as practicable after the mailing/publication has been completed.

13 IT IS FURTHER ORDERED that notice shall be deemed complete upon mailing and
14 publication of same, notwithstanding the failure of an individual customer to read or receive the
15 notice.

16 IT IS FURTHER ORDERED that the Ex Parte Rule (A.A.C. R14-3-113-Unauthorized
17 Communications) applies to this proceeding as the matter is now set for public hearing, and shall
18 remain in effect until the Commission's Decision in this matter is final and non-appealable.

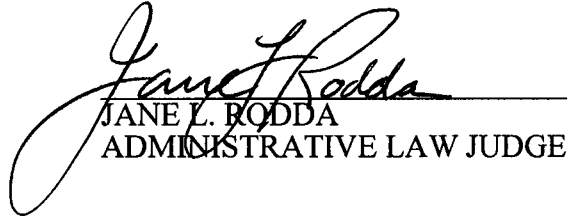
19 IT IS FURTHER ORDERED that the time periods specified herein shall not be extended
20 pursuant to Rule 6(a) or (e) of the Rules of Civil Procedure.

21 IT IS FURTHER ORDERED that all parties must comply with Rule 2 31 and 38 of the Rules
22 of the Arizona Supreme Court and A.R.S. § 40-243 with respect to practice of law and admission *pro*
23 *hac vice*.

24 IT IS FURTHER ORDERED that withdrawal of representation must be made in compliance
25 with A.A.C. R14-3-104(E) and Rule 1.16 of the Rules of Professional Conduct (under Rule 42 of the
26 Rules of the Arizona Supreme Court). Representation before the Commission includes the obligation
27 to appear at all hearings and procedural conferences, as well as all Open Meetings for which the
28 matter is scheduled for discussion, unless counsel has previously been granted permission to
withdraw by the Administrative Law Judge.

IT IS FURTHER ORDERED that the Presiding Officer may rescind, alter, amend, or waive any portion of this Procedural Order either by subsequent Procedural Order or by ruling at hearing.

DATED this 5th day of October, 2007.


JANE L. RODDA
ADMINISTRATIVE LAW JUDGE

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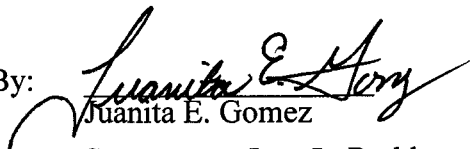
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